Fezile Dabi District Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	District municipality
Mayoral committee	
Executive Mayor	Cllr MP Moshodi
Councillors	Cllr KGL Nketu (Speaker) Cllr VE de Beer Cllr GN Guza Cllr ML Hlapane Cllr K Khumalo Cllr LS Kubeka Cllr ME Notsi Cllr AM Olifant Cllr TL Soetsang
Grading of local authority	Grade 1
Capacity of local authority	Low capacity
Municipal demarcation code	DC20
Accounting Officer	ML Molibeli
Chief Finance Officer (CFO)	G Mashiyi
Registered office	John Vorster Road Sasolburg 1947
Postal address	P.O Box 10 Sasolburg 1947
Bankers	ABSA BANK
Auditors	Auditor General of South Africa
Attorneys	Peyper Attorneys Inc Ponoane Attorneys

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

Index

The following supplementary information does not form part of the annual financial statements and is unaudited:

Appendixes:

Index

Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
DBSA	Development Bank of South Africa
DWA	Department of Water Affairs
EHS	Environmental, Health Services
EPWP	Expanded Public Works Program
FDDM	Fezile Dabi District Municipality
GRAP	Generally Recognised Accounting Practice
HIV	Human Immunodeficiency Virus
IAS	International Accounting Standards
IDP	Integrated Development Plan
LED	Local Economic Development
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MMC	Members of the Mayoral Committee
MPAC	Municipal Public Accounts Committee
PMU	Project Management Unit
SALGA	South African Local Government Association
SAMWU	South African Municipal Workers Union
SETA	Skills Education Training Authorities
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

ML Mofibeli
Municipal Manager
Sasolburg

31 August 2016

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	87 149 273	109 743 252
Receivables from exchange transactions	4	1 518 665	1 700 635
VAT receivable	6	5 187 197	-
		93 855 135	111 443 887
Non-Current Assets			
Property, plant and equipment	7	31 902 405	29 557 573
Intangible assets	8	856 571	1 013 860
		32 758 976	30 571 433
Total Assets		126 614 111	142 015 320
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	22 626 518	21 285 675
VAT payable	10	-	3 544 553
Unspent conditional grants and receipts	11	9 707 950	4 599 068
		32 334 468	29 429 296
Non-Current Liabilities			
Retirement benefit obligation	12	9 029 000	7 934 000
Provisions for long service awards	13	11 128 000	9 075 000
Operating lease liability		-	81 683
		20 157 000	17 090 683
Total Liabilities		52 491 468	46 519 979
Net Assets		74 122 643	95 495 341
Reserves			
Revaluation reserve	14	12 798 150	13 598 737
Accumulated surplus		61 324 493	81 896 604
Total Net Assets		74 122 643	95 495 341

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* See Note 28

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Administration and management fees received		36 710	38 340
Other income	15	1 751 965	1 286 385
Interest received - investment	16	7 989 415	8 043 872
Total revenue from exchange transactions		**9 778 090**	**9 368 597**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	17	145 367 031	145 192 042
Total revenue		**155 145 121**	**154 560 639**
Expenditure			
Employee related costs	18	(88 361 309)	(80 294 398)
Remuneration of councillors	19	(6 894 723)	(6 576 591)
Depreciation and amortisation	20	(3 590 419)	(3 845 512)
Finance costs	21	-	(1 011 421)
Reversal of impairment		100 000	1 821 000
Repairs and maintenance		(1 512 178)	(1 564 559)
Contracted services	22	(13 546 206)	(13 264 785)
Grants and subsidies paid	23	(13 933 191)	(28 084 869)
General expenses	24	(48 670 706)	(51 536 102)
Total expenditure		**(176 408 732)**	**(184 357 037)**
Operating deficit		(21 263 611)	(29 796 398)
Loss on disposal of assets		(109 093)	(350 423)
Deficit for the year		**(21 372 704)**	**(30 146 821)**

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* See Note 28

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	14 399 324	110 877 875	125 277 199
Adjustments			
Prior year adjustments	-	364 963	364 963
Balance at 01 July 2014 as restated*	14 399 324	111 242 838	125 642 162
Changes in net assets			
Deficit for the year	-	(30 146 821)	(30 146 821)
Revaluation reserve realised	(800 587)	800 587	-
Total changes	(800 587)	(29 346 234)	(30 146 821)
Opening balance as previously reported	13 598 737	81 171 880	94 770 617
Adjustments			
Prior year adjustments (note 28)	-	724 730	724 730
Restated* Balance at 01 July 2015 as restated*	13 598 737	81 896 610	95 495 347
Changes in net assets			
Revaluation reserve realised	(800 587)	800 587	-
Net income (losses) recognised directly in net assets	(800 587)	800 587	-
Deficit for the year	-	(21 372 704)	(21 372 704)
Total recognised income and expenses for the year	(800 587)	(20 572 117)	(21 372 704)
Total changes	(800 587)	(20 572 117)	(21 372 704)
Balance at 30 June 2016	12 798 150	61 324 493	74 122 643
Note(s)	14		

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* See Note 28

Fezile Dabi District Municipality
Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Grants		145 367 031	145 192 041
Interest income		7 989 415	8 043 872
Other receipts	25	1 788 675	1 324 725
		155 145 121	154 560 638
Payments			
Employee costs		(95 256 033)	(86 870 988)
Suppliers		(76 596 012)	(90 218 719)
Finance costs		-	(1 011 421)
		(171 852 045)	(178 101 128)
Net cash flows from operating activities	26	(16 706 924)	(23 540 490)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(5 930 636)	(1 564 570)
Purchase of other intangible assets	8	(26 435)	(946 725)
Proceeds on sale of assets		70 016	-
Other movement		-	(21 893)
Net cash flows from investing activities		(5 887 055)	(2 533 188)
Cash flows from financing activities			
Movement in long term loans		-	(2 644 882)
Net increase/(decrease) in cash and cash equivalents		(22 593 979)	(28 718 560)
Cash and cash equivalents at the beginning of the year		109 743 252	138 461 812
Cash and cash equivalents at the end of the year	3	87 149 273	109 743 252

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* See Note 28

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 43)
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Administration and management fees received	36 291	9	36 300	36 710	410	
Other income	-	750 104	750 104	1 751 965	1 001 861	43.1
Interest received - investment	4 200 000	600 000	4 800 000	7 989 415	3 189 415	43.2
Total revenue from exchange transactions	4 236 291	1 350 113	5 586 404	9 778 090	4 191 686	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	145 504 221	11 085 683	156 589 904	145 367 031	(11 222 873)	43.3
Other transfer revenue	17 690 428	37 783 730	55 474 158	-	(55 474 158)	43.4
Total revenue from non-exchange transactions	163 194 649	48 869 413	212 064 062	145 367 031	(66 697 031)	
Total revenue	167 430 940	50 219 526	217 650 466	155 145 121	(62 505 345)	
Expenditure						
Employee related costs	(88 460 200)	350 700	(88 109 500)	(88 361 309)	(251 809)	
Remuneration of councillors	(8 082 600)	-	(8 082 600)	(6 894 723)	1 187 877	43.5
Depreciation and amortisation	(5 900 000)	-	(5 900 000)	(3 590 419)	2 309 581	43.6
Reversal of impairment	-	-	-	100 000	100 000	
Repairs and maintenance	(2 473 600)	(150 000)	(2 623 600)	(1 512 178)	1 111 422	43.7
Contracted Services	(10 270 000)	(10 521 711)	(20 791 711)	(13 546 206)	7 245 505	43.8
Grants and subsidies paid	(3 039 000)	(23 936 849)	(26 975 849)	(13 933 191)	13 042 658	43.9
General Expenses	(49 205 540)	(15 958 666)	(65 164 206)	(48 670 706)	16 493 500	43.10
Total expenditure	(167 430 940)	(50 216 526)	(217 647 466)	(176 408 732)	41 238 734	
Operating deficit	-	3 000	3 000	(21 263 611)	(21 266 611)	
Loss on disposal of assets	-	-	-	(109 093)	(109 093)	
Deficit before taxation	-	3 000	3 000	(21 372 704)	(21 375 704)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	-	3 000	3 000	(21 372 704)	(21 375 704)	

Fezile Dabi District Municipality
Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2016											
Financial Performance											
Investment revenue	4 200 000	600 000	4 800 000	-		4 800 000	7 989 415		3 189 415	166 %	190 %
Transfers recognised - operational	145 504 221	11 085 683	156 589 904	-		156 589 904	145 367 031		(11 222 873)	93 %	100 %
Other own revenue	17 726 719	38 533 843	56 260 562	-		56 260 562	1 788 675		(54 471 887)	3 %	10 %
Total revenue (excluding capital transfers and contributions)	167 430 940	50 219 526	217 650 466	-		217 650 466	155 145 121		(62 505 345)	71 %	93 %
Employee costs	(88 460 200)	350 700	(88 109 500)	-	-	(88 109 500)	(88 361 309)	-	(251 809)	100 %	100 %
Remuneration of councillors	(8 082 600)	-	(8 082 600)	-	-	(8 082 600)	(6 894 723)	-	1 187 877	85 %	85 %
Debt impairment	-	-	-			-	100 000	-	100 000	100 %	100 %
Depreciation and asset impairment	(5 900 000)	-	(5 900 000)			(5 900 000)	(3 590 419)	-	2 309 581	61 %	61 %
Transfers and grants	(3 039 000)	(23 936 849)	(26 975 849)	-	-	(26 975 849)	(13 933 191)	-	13 042 658	52 %	458 %
Other expenditure	(61 949 140)	(26 633 377)	(88 582 517)	-	-	(88 582 517)	(63 838 183)	-	24 744 334	72 %	103 %
Total expenditure	(167 430 940)	(50 219 526)	(217 650 466)	-	-	(217 650 466)	(176 517 825)	-	41 132 641	81 %	105 %
Deficit	-	-	-	-		-	(21 372 704)		(21 372 704)	100 %	100 %
Deficit for the year	-	-	-	-		-	(21 372 704)		(21 372 704)	100 %	100 %

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Capital expenditure and funds sources											
Total capital expenditure	700 000	6 267 562	6 967 562	-		6 967 562	5 965 229		(1 002 333)	86 %	852 %
Sources of capital funds											
Transfers recognised - capital	700 000	6 267 562	6 967 562	-		6 967 562	5 965 229		(1 002 333)	86 %	852 %
Cash flows											
Net cash from (used) operating	(10 550 428)	(32 056 168)	(42 606 596)	-		(42 606 596)	(15 706 924)		25 899 672	39 %	158 %
Net cash from (used) investing	(700 000)	(6 267 562)	(6 967 562)	-		(6 967 562)	(5 887 055)		1 080 507	84 %	841 %
Net increase/(decrease) in cash and cash equivalents	(11 250 428)	(38 323 730)	(49 574 158)	-		(49 574 158)	(22 593 979)		26 980 179	46 %	201 %
Cash and cash equivalents at the beginning of the year	109 743 252	-	109 743 252	-		109 743 252	109 743 252		-	100 %	100 %
Cash and cash equivalents at year end	98 492 824	(38 323 730)	60 169 094	-		60 169 094	87 149 273		(26 980 179)	145 %	88 %

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
	R	R	R	R
2015				
Financial Performance				
Investment revenue				8 043 872
Transfers recognised - operational				145 192 042
Other own revenue				1 324 725
Total revenue (excluding capital transfers and contributions)				154 560 639
Employee costs	-	-	-	(80 294 398)
Remuneration of councillors	-	-	-	(6 576 591)
Debt impairment	-	-	-	1 821 000
Depreciation and asset impairment	-	-	-	(3 846 512)
Finance charges	-	-	-	(1 011 421)
Transfers and grants	-	-	-	(28 084 669)
Other expenditure	-	-	-	(86 715 869)
Total expenditure	-	-	-	(184 707 460)
Deficit				(30 146 821)
Deficit for the year				(30 146 821)

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

Post-retirement benefits and other long-term benefits

The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 12.

Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Accounting Policies

1.2 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	6 - 30 years
Computer equipment	Straight line	2 - 20 years
Furniture and fixtures	Straight line	2 - 24 years
Land		Indefinite
Motor vehicles	Straight line	2 - 20 years
Office equipment	Straight line	20 - 30 years
Other assets	Straight line	1 - 30 years
Plant and machinery	Straight line	2 - 10 years

1.2 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Accounting Policies

1.3 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 - 12 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

Accounting Policies

1.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.4 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.4 Financial Instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.5 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

1.5 Statutory receivables (continued)

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

1.5 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.6 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.6 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.6 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.7 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

1.7 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.9 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual payments are recognised as an operating lease asset or liability

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rent are expensed in the period in which they are incurred.

Accounting Policies

1.11 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise of assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.11 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.11 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.12 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a:
- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.6 and 1.7.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

1.13 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenuo can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.14 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by a municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.17 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 28 for detail.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.22 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21 (as amended 2015): Impairment of Non-cash-generating Assets

The following amendments were made to the standard:
- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired. In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset's useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 26 (as amended 2015): Impairment of Cash-generating Assets

The following amendments were made to the standard:
- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets and cash generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

2. New standards and interpretations (continued)

Improvements to the Standards of GRAP (2013)

Amendments were made to the following standards of GRAP:

- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments.

The amendments relate mainly to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the improvements is for years beginning on or after 01 April 2015.

The municipality has adopted the improvements for the first time in the 2016 annual financial statements.

The impact of the improvements is not material.

GRAP 23 (as amended 2015): Revenue From Non-exchange Transactions

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an entity's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more presentation and disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting municipality's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

A municipality that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting municipality) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the municipality. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

	2016 R	2015 R

8. Intangible assets (continued)

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Autodesk revit software	-	26 435	-	26 435
Caseware	24 160	-	(24 160)	-
Dispatch and early warning system	211 160	-	(21 844)	189 316
Drivelock system	661 834	-	(72 862)	588 972
E-Venus	47 304	-	(22 706)	24 598
Microsoft exchange 2010	21 055	-	(8 422)	12 633
Microsoft office 2007	17 661	-	(8 151)	9 510
Payday system	8 992	-	(4 316)	4 676
Server software	16 744	-	(16 313)	431
Telephone system	4 950	-	(4 950)	-
	1 013 860	26 435	(183 724)	856 571

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Caseware	53 151	-	(28 991)	24 160
Dispatch and early warning system	-	219 000	(7 840)	211 160
Drivelock system	-	727 725	(65 891)	661 834
E-Venus	70 010	-	(22 706)	47 304
Microsoft exchange 2010	29 477	-	(8 422)	21 055
Microsoft office 2007	25 813	-	(8 152)	17 661
Payday system	13 308	-	(4 316)	8 992
Server software	56 068	-	(39 324)	16 744
Telephone system	10 350	-	(5 400)	4 950
	258 177	946 725	(191 042)	1 013 860

Pledged as security

None of the above intangible assets have been pledged as security.

Other information

	2016	2015
Fully amortised intangible assets still in use	-	4 094

Fully amortised intangible assets still in use consist of:
- MS Exchange 2003 Server

There were no intangible assets that were assessed as having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no contractual commitments for the acquisition of intangible assets.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

	2016 R	2015 R

9. Payables from exchange transactions

Retention creditors	1 618 725	2 669 384
Service bonus accrual	3 304 697	2 961 338
Staff leave accrual	6 468 569	5 632 314
Trade payables	10 800 525	9 230 703
Uncashed cheques	-	17 560
WCA accrual	434 002	774 376
	22 626 518	21 285 675

10. VAT payable

VAT	-	3 544 553

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Health - Relebohile Clinic: Ngwathe Local Municipality	2 516 435	2 516 435
Department of Public Works - Church: Ngwathe Local Municipality	85 794	85 794
Department of Roads, Transport and Police - Internal Roads: Ngwathe Local Municipality	732 391	732 391
Department of Sports - Grant: Fezile Dabi Stadium	1 264 448	1 264 448
Expanded Public Works Programme	1 000 000	-
Municipal Infrastructure grant - Mafube Local Municipality	4 108 882	-
	9 707 950	4 599 068

Movement during the year

Balance at the beginning of the year	4 599 068	5 358 475
Additions during the year	146 367 031	144 432 634
Income recognition during the year	(145 367 031)	(145 192 041)
Additions during the year - principal-agent capacity	9 351 000	-
Utilised during the year - principal-agent capacity	(5 242 118)	-
	9 707 950	4 599 068

See note 17 for reconciliation of grants from National/Provincial Government.

The municipality is acting in a principal-agent capacity, where projects are handled on behalf of another organ of state for the following unspent conditional grants:

- Department of Health - Relebohile Clinic: Ngwathe Local Municipality
- Department of Public Works - Church: Ngwathe Local Municipality
- Department of Roads, Transport and Police - Internal Roads: Ngwathe Local Municipality
- Department of Sports - Grant: Fezile Dabi Stadium
- Municipal Infrastructure grant - Mafube Local Municipality

2. **New standards and Interpretations (continued)**
   - An entity is related to the reporting entity if any of the following conditions apply:
     - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
     - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
     - both entities are joint ventures of the same third party;
     - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
     - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
     - the entity is controlled or jointly controlled by a person identified in (a); and
     - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

	2016 R	2015 R

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This Interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The Interpretation has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

	2016 R	2015 R

12. Retirement benefit obligation

Defined benefit plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the surving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ZAQ Consultants and Actuaries.

Post retirement medical aid plan

	2016 R	2015 R
The Post retirement benefit plan is a defined benefit plan, of which the members are made up as follows:		
In-service members (employees)	139	122
Continuation members (e.g: retirees, widows, orphans)	4	4
	143	126

The municipality make monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas medical scheme
- Discovery medical scheme
- Hosmed medical scheme
- KeyHealth medical scheme
- LA Health medical scheme
- Samwumed medical scheme

The amounts recognised in the statement of financial position are as follows:

	2016 R	2015 R
Carrying value		
Opening balance	(7 934 000)	(7 444 000)
Service cost	(556 000)	(557 000)
Interest cost	(743 000)	(681 000)
Actuarial gains	26 000	587 000
Actual benefits paid	178 000	161 000
	(9 029 000)	(7 934 000)

Notes to the Annual Financial Statements

	2016 R	2015 R

12. Retirement benefit obligation (continued)

Net expense recognised in the statement of financial performance

	2016 R	2015 R
Current service cost	(556 000)	(557 000)
Interest cost	(743 000)	(681 000)
Actuarial gains	26 000	587 000
Benefit payments	178 000	161 000
	(1 095 000)	(490 000)

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	Yield curve	Yield curve
Healthcare cost inflation	CPI + 1%	CPI + 1%
Net discount rate	Yield curve based	Yield curve based

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We used the nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the accrued liability	9 231 000	8 781 000
Effect on interest cost	941 000	895 000
Effect on service cost	713 000	679 000

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	9 029 000	7 934 000	7 444 000	8 417 000	6 440 000

2. New standards and interpretations (continued)

GRAP 16 (as amended 2015): Investment Property

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

	2016 R	2015 R

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	7 760 615	12 502 352
Short-term deposits	79 388 658	97 240 900
	87 149 273	109 743 252

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents include cash on hand, current bank account, bank overdraft and short term deposits with a maturity of three months or less.

Short-term deposits consist of the following balances at various institutions

Credit rating		
ABSA	26 800 368	34 521 318
Nedbank	19 418 585	31 212 432
Standard Bank	32 774 374	31 148 727
Accrued interest	395 330	358 423
	79 388 657	97 240 900

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Cheque account - 520000100	6 733 744	11 734 765	1 126 975	6 648 425	11 734 765	(73 813)
ABSA Bank - Savings account - 9070399717	127 890	427 285	321 832	127 890	427 285	321 832
ABSA Bank - HIV/Aids project bank account - 9209269959	984 300	340 302	1 236 909	984 300	340 302	1 236 908
Total	7 845 934	12 502 352	2 685 716	7 760 615	12 502 352	1 484 927

4. Receivables from exchange transactions

Bursary recoupment	98 814	70 720
Fuel deposit	1 000	1 000
Other debtors	110 013	211 368
Payments in advance	577 551	728 436
Pick n Pay card	2 251	2 251
Recoverable expenses	729 036	686 860
	1 518 665	1 700 635

Pledged as security

None of the trade and other receivables were pledged as security.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

	2016 R	2015 R

4. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 1 518 665 (2015: R 1 700 636) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2016 R	2015 R
3 months past due	1 518 665	1 700 636

Reconciliation of provision for impairment of trade and other receivables

	2016 R	2015 R
Opening balance	-	198 462
Amounts written off as uncollectible	-	(198 462)
	-	-

5. Receivables from non-exchange transactions

	2016 R	2015 R
Funeral expenses: MEC Health	-	4 448 593
Less: allowance for impairment	-	(4 448 593)
	-	-

Pledged as security

None of the trade and other receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R - (2015: R 4 448 593) were impaired and provided for.

The amount of the provision was R - as of 30 June 2016 (2015: R 4 448 593).

The ageing of these receivable from non-exchange transactions is as follows:

	2016 R	2015 R
Over 6 months	-	4 448 593

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2016 R	2015 R
Opening balance	4 448 593	6 269 593
Amounts written off as uncollectible	(4 348 593)	-
Unused amounts reversed	(100 000)	(1 821 000)
	-	4 448 593

6. VAT receivable

	2016 R	2015 R
VAT	5 187 197	-

VAT is payable on the payment basis.

Notes to the Annual Financial Statements

	2016 R	2015 R

7. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	21 358 319	(3 136 814)	18 221 505	19 257 884	(2 178 342)	17 079 542
Computer equipment	4 995 736	(3 550 965)	1 444 771	5 517 143	(4 523 793)	993 350
Furniture and fixtures	4 216 675	(3 432 230)	784 445	4 485 184	(3 426 968)	1 058 216
Land	2 590 000	-	2 590 000	2 590 000	-	2 590 000
Motor vehicles	12 717 288	(5 369 374)	7 347 914	10 656 202	(4 674 232)	5 981 970
Office equipment	2 470 542	(1 909 385)	561 157	2 476 650	(1 968 235)	508 415
Other assets	1 214 178	(816 223)	397 955	1 481 672	(820 729)	660 943
Plant and machinery	1 678 325	(1 123 667)	554 658	1 575 193	(890 056)	685 137
Total	**51 241 063**	**(19 338 658)**	**31 902 405**	**48 039 928**	**(18 482 355)**	**29 557 573**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Work in progress	Disposals	Transfers	Depreciation	Total
Buildings	17 079 542	17 500	2 352 141	-	(253 353)	(974 325)	18 221 505
Computer equipment	993 350	653 111	-	(15 483)	253 500	(439 707)	1 444 771
Furniture and fixtures	1 058 216	321	-	(1 914)	26 974	(299 152)	784 445
Land	2 590 000	-	-	-	-	-	2 590 000
Motor vehicles	5 981 970	2 741 086	-	(149 600)	-	(1 225 542)	7 347 914
Office equipment	508 415	112 690	-	(11 493)	171 381	(219 836)	561 157
Other assets	660 942	53 786	-	(590)	(239 296)	(76 887)	397 955
Plant and machinery	685 138	-	-	(28)	40 794	(171 246)	554 658
	29 567 573	3 578 494	2 352 141	(178 108)	-	(3 406 695)	31 902 405

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Work in progress	Disposals	Depreciation	Total
Buildings	17 688 397	-	371 841	(2 811)	(977 885)	17 079 542
Computer equipment	1 477 597	101 893	-	(59 361)	(526 779)	993 350
Furniture and fixtures	1 140 454	237 344	-	(5 403)	(314 179)	1 058 216
Land	2 590 000	-	-	-	-	2 590 000
Motor vehicles	6 673 747	619 535	-	(232 700)	(1 078 612)	5 981 970
Office equipment	686 328	47 850	-	(16 268)	(209 495)	508 415
Other assets	637 993	186 307	-	(11 987)	(151 371)	660 942
Plant and machinery	849 056	-	-	-	(163 918)	685 138
	31 743 572	1 192 929	371 841	(328 530)	(3 422 239)	29 567 573

Pledged as security

None of the above property, plant and equipment have been pledged as security.

	2016 R	2015 R

7. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 28 June 2013. Revaluations were performed by independent valuer,Kgolofelo Property Services CC. Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus was credited to revaluation reserve.

Land and buildings are re-valued independently every 5 years.

Other information

	2016 R	2015 R
Property, plant and equipment (Work in progress)		
Mafube: Sewer network and toilet structures for 363 erven in Qalabotjha (Ramutsa Rail CC)	-	10 250 918
Metsimaholo: Deneysville Resort	-	195 589
Koppies Greenhouse primary cooperative	317 030	-
	317 030	10 446 507

Key assumptions used to determine the recoverable service amount of assets during the period:

The municipality conducted asset count, and in this process the assets' conditions were assessed, and it was determined that during the year a vehicle was impaired.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Autodesk revit software	26 435	-	26 435	-	-	-
Caseware	173 950	(173 950)	-	173 950	(149 790)	24 160
Dispatch and early warning system	219 000	(29 684)	189 316	219 000	(7 840)	211 160
Drivelock system	728 625	(139 653)	588 972	728 625	(66 791)	661 834
E-Venus	468 460	(443 862)	24 598	468 460	(421 156)	47 304
Microsoft exchange 2010	56 848	(44 215)	12 633	56 848	(35 793)	21 055
Microsoft office 2007	163 027	(153 517)	9 510	163 027	(145 366)	17 661
Payday system	89 052	(84 376)	4 676	89 052	(80 060)	8 992
Server software	241 071	(240 640)	431	241 071	(224 327)	16 744
Telephone system	27 000	(27 000)	-	27 000	(22 050)	4 950
Total	**2 193 468**	**(1 336 897)**	**856 571**	**2 167 033**	**(1 153 173)**	**1 013 860**

Notes to the Annual Financial Statements

	2016 R	2015 R

13. Provisions for long service awards

Reconciliation of provisions for long service awards - 2016

	Opening Balance	Movement	Total
Long Service Awards	9 075 000	2 053 000	11 128 000

Reconciliation of provisions for long service awards - 2015

	Opening Balance	Movement	Total
Long Service Awards	7 595 000	1 480 000	9 075 000

	2016	2015
Amounts recognised in the statement of financial performance are as follows:		
Current service cost	(1 437 000)	(1 300 000)
Interest cost	(882 000)	(647 000)
Actuarial gains/(losses)	(971 203)	(582 146)
Cash movements		
Benefit payments	1 237 203	1 049 146
	(2 053 000)	(1 480 000)

	2016	2015
Amounts recognised in the statement of financial position are as follows:		
Defined benefit obligation	11 128 000	9 075 000

The provision relates to the Long Service Award obligation for the municipal employees. The actuarial valuation was performed in line with the requirements of GRAP 25 by ZAQ Consultants and Actuaries on 30 June 2016.

Key assumptions used:

Assumptions used at the reporting date:

	2016	2015
Discount rates used	Yield curve	Yield curve
Salary inflation	Equal to CPI	Equal to CPI
Net discount rate	Yield curve	Yield curve

The basis on which the discount rate has been determined is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

The nominal and zero curves as at 30 June 2016 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

	2016 R	2015 R

14. Revaluation reserve

Opening balance	13 598 737	14 399 324
Reserve realised	(800 587)	(800 587)
	12 798 150	**13 598 737**

15. Other income

Insurance claim received	16 676	30 689
Jazz festival income	980 958	482 789
Recoveries - Councillors and officials	481 903	483 291
Sundry income	272 428	289 616
	1 751 965	**1 286 385**

16. Interest received

Bank	1 230 167	1 149 714
Short term deposits	6 759 248	6 894 158
	7 989 415	**8 043 872**

17. Government grants and subsidies

Equitable share	140 135 000	137 551 000
Expanded public works program integrated grant	-	1 921 923
Financial management grant	1 250 000	1 250 000
Municipal systems improvement grant	930 000	934 000
Rural roads asset management system grant	2 039 000	1 709 000
Skills education training authorities intern program	873 000	1 695 000
Skills education training authorities skills levy	140 031	131 119
	145 367 031	**145 192 042**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Expanded public works program integrated grant

Balance unspent at beginning of year	-	866 922
Current-year receipts	1 000 000	1 055 000
Conditions met - transferred to revenue	-	(1 921 922)
	1 000 000	**-**

Conditions still to be met - remain liabilities (see note 11).

The grant was received by the municipality based on its ability to meet the performance requirements as set by the Department of Public Works.

	2016 R	2015 R

17. Government grants and subsidies (continued)

Financial management grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the financial management grant is to assist municipalities to implement financial reforms required by MFMA.

Municipal systems improvement grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The fund is used to assist the district in building capacity to perform its functions and stabilise institutional and governance systems as required by the Municipal Systems Act (Act 32 of 2000).

Rural roads asset management system grant

Current-year receipts	2 039 000	1 709 000
Conditions met - transferred to revenue	(2 039 000)	(1 709 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the Rural roads asset management system grant is to assist the rural district municipalities to set up their road asset management systems and to collect rural data in line with the Road Infrastructure Strategic Framework for South Africa.

Skills education training authorities intern program

Current-year receipts	873 000	1 695 000
Conditions met - transferred to revenue	(873 000)	(1 695 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the SETA grant is aimed at skills development, promoting growth in employment and capacity building to address scarce skills.

Skills education training authorities skills levy

Current-year receipts	140 031	131 119
Conditions met - transferred to revenue	(140 031)	(131 119)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the SETA skills levy is aimed at skills development, promoting growth in employment and capacity building to address scarce skills.

17. Government grants and subsidies (continued)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No.5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

	2016 R	2015 R

18. Employee related costs

Annual bonus	3 801 435	3 119 326
Bonus	993 999	930 797
Contributions of UIF, pension and medical aids	12 703 177	11 043 416
Housing benefits	380 700	298 255
Leave pay provision charge	2 602 287	1 685 460
Long-service awards	3 415 356	2 529 146
Overtime payments	2 018 188	1 444 119
Retrenchment - Provident fund contributions	-	1 648 769
Salaries and wages	50 171 503	46 445 749
Termination benefits	1 095 000	490 000
Travel and motor car allowances	11 179 684	10 659 362
	88 361 309	**80 294 398**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of municipal manager: ML Mollbeli

Annual remuneration	1 229 064	1 205 792
Car allowance	454 070	454 070
Contributions to UIF, medical and pension funds	258 257	250 696
Performance bonuses	271 545	254 279
	2 212 936	**2 164 837**

Remuneration of chief finance officer: G Mashiyi

Annual remuneration	1 188 428	1 171 985
Car allowance	363 256	363 256
Contributions to UIF, medical and pension funds	1 785	16 624
Performance bonuses	217 236	203 423
	1 770 705	**1 755 288**

Remuneration of director - LED: V Moloi

Annual remuneration	858 211	777 798
Back pay	-	188 058
Car allowance	144 000	144 000
Contributions to UIF, medical and pension funds	202 471	185 749
Performance bonuses	168 406	157 698
	1 373 088	**1 453 299**

Remuneration of director - PMU

The position Director: PMU were vacant during the 2014/2015 and 2015/2016 financial year.

Remuneration of director - Corporate services: Adv A Mini

Annual remuneration	897 377	869 368
Car allowance	266 000	266 000
Contributions to UIF, medical and pension funds	41 305	37 446
Performance bonuses	168 406	157 698
	1 373 088	**1 330 512**

	2016 R	2015 R

18. Employee related costs (continued)

Remuneration of director - Health and safety: N Baleni

	2016 R	2015 R
Annual remuneration	913 224	883 667
Car allowance	266 000	266 000
Contributions to UIF, Medical and Pension Funds	25 458	23 147
Performance bonuses	168 406	157 698
	1 373 088	1 330 512

	2016 R	2015 R

19. Remuneration of councillors

	2016 R	2015 R
Executive Mayor	820 151	787 849
Speaker	650 515	618 792
Mayoral Committee Members	2 534 959	2 597 396
Councillors	2 889 098	2 572 554
	6 894 723	6 576 591

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Executive Mayor - Cllr MP Moshodi

	2016 R	2015 R
Basic salary	500 162	476 908
Car allowance	194 878	183 868
Cellphone allowance	33 090	41 820
Social contributions	92 021	85 253
	820 151	787 849

Speaker - Cllr KGL Nkethu

	2016 R	2015 R
Basic salary	397 123	380 723
Car allowance	155 902	147 094
Cellphone allowance	20 868	20 868
Social contributions	76 622	70 107
	650 515	618 792

MPAC Chair person - Cllr L Khubeka

	2016 R	2015 R
Basic salary	241 846	231 089
Car allowance	80 615	75 583
	322 461	306 672

MMC - Corporate services - Cllr AM Oliphant

	2016 R	2015 R
Basic salary	220 934	213 135
Car allowance	90 451	84 777
Social contributions	50 420	46 062
	361 805	343 974

MMC - Ehs & public safety - Cllr VE de Beer

	2016 R	2015 R
Basic salary	271 354	259 080
Car allowance	90 451	84 777
	361 805	343 857

MMC - Finance - Cllr ME Notsi

	2016 R	2015 R
Basic salary	230 257	221 371
Car allowance	88 265	82 741
Social contributions	34 539	31 602
	353 061	335 714

	2016 R	2015 R

19. Remuneration of councillors (continued)
MMC - Led & tourism - Cllr ML Hlapane

Basic salary	228 447	212 426
Car allowance	90 451	84 777
Social contributions	42 907	46 771
	361 805	**343 974**

MMC - Social development - Cllr GN Guza

Basic salary	216 445	353 954
Car allowance	88 731	137 901
Cellphone allowance	20 868	20 868
Social contributions	49 747	67 696
	375 791	**580 419**

Councillor GN Guza, only served the municipality up to 30 October 2015.

MMC - Social development - Cllr TL Soetsang

Basic salary	154 464	-
Car allowance	51 488	-
	205 952	-

Councillor TL Soetsang, assumed duties with the municipality with effect from 1 December 2015.

MMC - Technical services - Cllr K Khumalo

Basic salary	220 934	211 792
Car allowance	90 451	84 777
Social contributions	50 420	47 406
	361 805	**343 975**

Part Time Councillors
Cllr's: ME Mokoena, ML Pietersen, SJMT Mahlakazela, DP van der Westhuizen, MC Spruit, SH Pittaway, MS Taje, DLS George, NP Mokoena, D de Hart

Basic salary	1 721 978	1 633 904
Car allowance	576 997	532 952
Cellphone allowance	202 225	201 724
	2 719 574	**2 569 299**
Sitting allowance for seconded councillors of local municipalities	218 374	200 719

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

Notes to the Annual Financial Statements

	2016 R	2015 R

20. Depreciation and amortisation

Intangible assets	183 725	191 041
Property, plant and equipment	3 406 695	3 654 471
	3 590 420	3 845 512

21. Finance costs

Interest on long term loans	-	1 011 421

Finance cost relates to financial liabilities at amortised cost.

22. Contracted services

Various contractors	13 546 206	13 264 785

These payments are contracts which have been entered into during the current and prior financial year

Cleaning services	397 755	392 457
Climate change and green economy	234 079	3 065 693
Establishment of Koppies green house	1 980 000	-
Improve response incidents	-	1 237 515
Jazz festival	6 140 503	5 742 828
Other	-	58 500
Performance system	2 975 304	2 339 177
Sport development programs	243 268	242 127
Upgrade of district centre	649 869	-
Upgrading of municipal resorts	925 429	186 488
	13 546 206	13 264 785

23. Grants and subsidies paid

Other subsidies		
Develop stadium parking	749 696	234 331
District areas	-	2 071 089
Mafube Local Municipality	989	10 448 440
Metsimaholo Local Municipality	342 912	4 582 760
Ngwathe Local Municipality	10 000 000	7 519 305
Rural road asset management system	1 996 738	1 601 743
Supprt to local municipality - capacity building	842 856	1 463 801
Support to local municipality - disaster management	-	163 200
	13 933 191	28 084 669

The Municipality identifies projects which are funded through grants and subsidies in the various local municipalities within the District. Projects are identified through the Integrated Development Plan. The operation and control of items of property, plant and equipment funded through these grants and subsidies vests in the local municipalities.

Notes to the Annual Financial Statements

	2016 R	2015 R
24. General expenses		
Accounting fees	-	150 000
Advertising	174 407	421 731
Air quality management	503 288	186 650
Audit committee	119 235	110 957
Auditors remuneration	2 624 696	4 014 429
Bank charges	79 430	99 937
Bursaries: External students	946 006	1 554 143
Bursaries: Internal	610 141	326 889
Catering	4 406 080	3 965 741
Cleaning	74 931	15 180
Community development and training	224 580	856 270
Conferences and seminars	400 651	452 116
Consulting and professional fees	591 731	110 106
Consumables	201 540	141 292
Corporate gifts	218 451	245 262
Corporate reports	686 083	623 595
Distribution to beneficiaries (HIV and Aids)	-	900 000
District outreach programmes	-	64 205
Donations	549 325	676 741
Emergency funds	470 595	567 776
Employee assistance program	111 948	133 304
Enterprise wide - group life cover	55 805	88 946
Entertainment	538 146	698 111
Entrepreneurial support system	76 850	597 499
Environmental health projects	113 200	72 800
Establishment of co-operatives	263 680	308 800
Event expenses	9 698 782	6 079 617
Financial management expenditure	1 250 000	1 236 922
Fleet	89 053	73 309
Fuel and oil	1 028 624	1 255 516
IDP implementation monitoring	-	296 000
IT expenses	1 466 920	1 291 286
Insurance	296 760	359 658
Learnership: Service provider	1 531 904	710 739
Learnership: Student material	-	62 014
Magazines, books and periodicals	55 889	59 976
Marketing	3 008 178	2 520 099
Municipal services	504 532	1 021 764
Other expenses	84 802	820 158
Policy review	109 650	-
Printing and stationery	1 538 408	1 580 636
Promotions	175 000	1 688 269
Protective clothing	633 778	167 288
Rental equipment	2 470 368	2 257 177
Sampling testing	410 108	301 951
Security (Guarding of municipal property)	63 645	103 506
Singage	61 800	-
Skills development levy	730 658	665 340
Stipends	547 073	2 482 397
Subscriptions and membership fees	1 075 718	786 480
Telephone and fax	1 272 340	1 128 308
Training	336 523	557 583
Travel - local	5 240 671	6 222 255
Vector control	514 721	29 690
Workmen's compensation commissioner	434 002	394 684
	48 670 706	**51 536 102**

	2016 R	2015 R

24. General expenses (continued)

All donations made by the municipality are in terms of the council's donation policy.

25. Other receipts

	2016 R	2015 R
Administration and management fees received	36 710	38 340
Insurance claim received	16 676	30 689
Jazz festival income	980 958	482 789
Recoveries - Councillors and officials	481 903	483 291
Sundry income	272 428	289 616
	1 788 675	**1 324 725**

26. Cash used in operations

	2016 R	2015 R
Deficit	(21 372 704)	(30 146 821)
Adjustments for:		
Depreciation and amortisation	3 590 419	3 845 512
Loss on sale of assets	109 093	350 423
Reversal of impairment	-	(1 821 000)
Movements in operating lease assets and accruals	(81 683)	(44 320)
Movements in retirement benefit assets and liabilities	1 095 000	490 000
Movements in provisions	2 053 000	1 480 000
Changes in working capital:		
Receivables from exchange transactions	181 976	680 980
Payables from exchange transactions	1 340 843	1 421 003
VAT	(8 731 750)	963 140
Unspent conditional grants and receipts	5 108 882	(759 407)
	(16 706 924)	**(23 540 490)**

27. Retirement benefit information - Defined conrtibution plan

Councillors and employees belong to two defined benefit retirement funds which are the Free State Municipal Pension Fund and the Councillors Pension Fund governed by the Pension Fund Act of 1956. These Funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed June 2008. The Free State Municipal Pension Fund, net assets that are available for benefits at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the fund was in a sound financial position. The estimated liability of the funds is R 1 576 689 000 which is adequately financed.

No new information was available at reporting date.

	2016 R	2015 R

28. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Statement of financial performance **Revenue**	Balance as previously reported	Prior period error	Total
Administration and management fees received	38 340	-	38 340
Other income	1 286 385	-	1 286 385
Interest received - investment	8 043 872	-	8 043 872
Government grants and subsidies	145 192 042	-	145 192 042
	154 560 639	-	154 560 639
Expenses			
Employee related cost	(80 294 398)	-	(80 294 398)
Remuneration of councillors	(6 576 591)	-	(6 576 591)
Depreciation and amortisation	(3 845 512)	-	(3 845 512)
Finance charges	(1 011 421)	-	(1 011 421)
Reversal of impairment/(debt impairment)	1 821 000	-	1 821 000
Repairs and maintenance	(1 564 559)	-	(1 564 559)
Contracted services	(13 264 785)	-	(13 264 785)
Grants and subsidies paid	(28 084 669)	-	(28 084 669)
General expenses	(51 121 492)	(414 609)	(51 536 101)
	(183 942 427)	(414 609)	(184 357 036)
Operating (deficit) / surplus	(29 381 788)	(414 609)	(29 796 397)
Gain on disposal of financial assets	(350 423)	-	(350 423)
	(29 732 211)	(414 609)	(30 146 820)

Statement of financial position — **Current assets**	Balance as previously reported	Prior period error	Total
Cash and cash equivalents	109 743 252	-	109 743 252
Receivables from exchange transactions	1 700 636	-	1 700 636
	111 443 888	-	111 443 888
Non-current assets			
Property, plant and equipment	29 557 573	-	29 557 573
Intangible assets	1 013 860	-	1 013 860
	30 571 433	-	30 571 433
Current liabilities			
Payables from exchange transactions	21 236 029	49 646	21 285 675
VAT payable	3 544 553	-	3 544 553
Unspent conditional grants	4 599 068	-	4 599 068
	29 379 650	49 646	29 429 296

		2016 R	2015 R

28. Prior period errors (continued)

Non-current liabilities			
Retirement benefit obligation	7 934 000	-	7 934 000
Provisions for long service awards	9 075 000	-	9 075 000
Operating lease liability	81 683	-	81 683
	17 090 683	-	17 090 683
Net assets			
Revaluation reserve	13 598 737	-	13 598 737
Accumulated surplus - opening balance	81 946 251	724 730	82 670 981
	95 544 988	724 730	96 269 718

1. Payables from exchange transactions

During the 2015/2016 financial year the municipality corrected expenditure incurred during the 2014/2015 financial year through the credit card, not allocated.

Statement of financial position		
Increase in payables from exchange transactions	-	(19 925)
Decrease in accumulated surplus	-	19 925
	-	-
Statement of financial performance		
Increase in general expenditure	-	(19 925)

2. Payables from exchange transactions

During the 2015/2016 financial year, the municipality corrected entries relating to property, plant and equipment for which the municipality made a pre-payment the during the 2013/2014 financial year. The pre-payment was incorrectly allocated as expenditure during 2013/2014.

Statement of financial position		
Decrease in payable from exchange transactions	-	744 655
Increase in accumulated surplus	-	(744 655)
	-	-

3. Workman's compensation commisioner

A correction was made to account for workman's compensation for prior years. An accrual was raised in prior years. THe amount was subsequently paid.

Statement of financial position		
Increase in payables from exchange transactions	-	774 376
Decrease in accumulated surplus in prior years	-	(379 692)
	-	394 684
Statement of financial performance		
Increase in general expenditure	-	394 684

29. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

30. Change in estimate

Property, plant and equipment

Depreciable assets' remaining useful lives were reassessed at the beginning of the current reporting period to reflect the actual pattern of service potential derived from assets.

The effect on the current year:

Decrease in depreciation	(288 855)	-
Increase in Property, plant and equipment	288 855	-
	-	-

31. Unauthorised expenditure

Balance at the beginning of the year	-	-
Unauthorised expenditure - current year	4 348 593	-
Less: Amounts approved / written-off by council	(4 348 593)	-
	-	-

32. Fruitless and wasteful expenditure

Opening balance	-	2 454
Fruitless and wasteful expenditure - current year	23 164	28 986
Amounts recovered	(2 618)	(2 978)
Written-off by council	(20 546)	(28 462)
	-	-

33. Irregular expenditure

Opening balance	-	4 744 616
Add: Irregular Expenditure - current year	26 341	-
Less: Written of by Council	-	(4 744 616)
	26 341	-

34. In-kind donations and assistance

No in-kind donations or assistance were received during the year.

35. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	26 694	22 632
Amount paid - current year	(26 694)	(22 632)
	-	-

35. **Additional disclosure in terms of Municipal Finance Management Act (continued)**

Audit fees

Current year subscription / fee	2 624 696	4 014 429
Amount paid - current year	(2 624 696)	(4 014 429)
	-	-

PAYE and UIF

Current year subscription / fee	18 007 627	16 520 225
Amount paid - current year	(18 007 627)	(16 520 225)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	20 228 734	17 563 414
Amount paid - current year	(20 228 734)	(17 563 414)
	-	-

VAT

VAT receivable	5 187 197	-
VAT payable	-	3 544 553
	5 187 197	3 544 553

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

36. **Related parties**

Relationships	
Members of key management	Refer to note 18
Executive Council Members	Refer to note 19

37. **Risk management**

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

37. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	22 192 522	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	20 511 299	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	1 518 665	1 700 636
Cash and cash equivalents	87 234 591	109 743 251

Market risk

Interest rate risk

The municipality is mainly exposed to interest rate risk due to the movements in long-term and short term interest rates.

The risk is managed on an on-going basis.

38. Events after the reporting date

No other events took place after the reporting date.

39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations from supply chain management regulations did occur. These deviations were submitted and noted by council. A detailed deviation register is available at the municipality for inspection.

Deviation categories		
Emergency	200 556	540 820
Others	3 008 557	339 090
	3 209 113	**879 910**

40. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	1 518 665	1 518 665
Cash and cash equivalents	87 149 273	87 149 273
	88 667 938	**88 667 938**

. **Financial instruments disclosure (continued)**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	22 626 518	22 626 518

2015

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	1 700 635	1 700 635
Cash and cash equivalents	109 743 252	109 743 252
	111 443 887	111 443 887

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	21 285 675	21 285 675

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Qalabotjha construction sewer network	-	1 453 733
• Rural roads asset management system	2 161 262	4 265 257
• Thatobopelo construction and projects	-	296 919
• Tiro trading enterprise CC	900 907	2 499 089
	3 062 169	8 514 998

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	977 680

The municipality rents photocopy machines from Nashua Vaal, being the major supplier:

- no contingent rent is payable in terms of the lease agreements.
- there is no renewal as per lease agreement terms, and the lease escalates as determined in the various lease agreements with the renter; and
- no restrictions are imposed by lease arrangements, with regards to additional debt and further leasing.

The lease agreements is for a total period of 36 months (3 years).

Notes to the Annual Financial Statements

42. Contingencies

The municipality had the following contingent liabilities as at year-end:

The certainty and timing of the outflow of these liabilities are uncertain. The amount disclosed below are possible outflow;

FDDM / SAMWU obo P. Setsheli - Labour case	1 200 000	1 000 000
FDDM / SAMWU obo T. Gorati - Labour case	-	600 000
FDDM / Nyumba Mobile Homes & Office Pty (Ltd)	353 130	353 130
FDDM / Picasso Headline Pty (Ltd)	42 476	42 476
	1 595 606	1 995 606

- P. Setsheli: Dismissal due to misconduct in refusing to take lawful orders.
- T. Gorati: Dismissal due to misconduct, the applicant is contesting the dismissal.
- Nyumba Mobile Homes & Office Pty (Ltd): Outstanding money owed for project undertaken by joint venture for the construction of additional wards and new forensic mortuary at Metsimaholo District Hospital.
- Picasso Headline Pty (Ltd): Outstanding payment relating to advertising charges.

43. Budget differences

Material differences between budget and actual amounts

1. Recoupment of private telephone calls and other refunds.

2. Interest rate increased above what was anticipated, slow spending on projects.

3. MIG project for Mafube included.

4. Transfer from accumulated surplus.

5. Mayco members was only paid difference between gazette amount and what is received by them.

6. Review of useful life of the assets.

7. Repairs is mainly to vehicles and buildings. No infrastructure to maintain.

8. New Contracts and Contract not awarded due to cost cutting implementations.

9. MIG project for Mafube included.

10. Implementation of cost cutting measures.

Changes from the approved budget to the final budget

The changes between the approved and the final budget are a consequence of reallocations within the apporived budget parameters.